



*FOOD AND NUTRITION SERVICE*

# Benefit Redemption Division



ANNUAL REPORT  
FY 2000



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## Introduction

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The Benefit Redemption Division (BRD) is responsible for all aspects of retailer management and operations for the food stamp program. In addition, BRD is responsible for food stamp issuance which includes food stamp coupon printing, shipping, oversight contracts, and the development and implementation of the electronic benefit transfer (EBT) system. EBT is a food stamp automated issuance system used by recipients through retailers.

BRD ensures that only legitimate retailers, who offer a variety of food items, participate in the Food Stamp Program and those stores that are not in compliance with regulations and policies are sanctioned appropriately. BRD also ensures that the benefit issuance systems are responsive to the needs of the clients, state and federal government.

This annual report reflects the activity and accomplishments of the three BRD branches, the Redemption Management Branch, the Compliance Branch and the EBT Branch, that are responsible for overseeing retailer and EBT management.

## A Message from the Director

From the printing of paper food stamps, to the issuance of paper and electronic benefits to Program clients, to the licensing of stores and oversight of store activity, and ending with the redemption of benefits, the Division is responsible for a broad range of Food Stamp Program activity. While broad, the activity is largely interrelated. Prior to the Benefit Redemption Division's FY 1999 Annual Report, information about the separate activities that the Division was responsible for was issued in a piecemeal fashion. Beginning with the FY 1999 Annual Report we attempted to bring together an overall view of the work the Division work oversees. This year's report continues in the same vein. As you look through the report you will find information about nearly every aspect of the Division's areas of responsibility. Much of the information carries over from last year; that is, categories that were in the previous report are here again so that readers can see trends and compare time periods. There is some new information, however. Over time, it is our intention to make this report richer in the information that it provides to readers.

The report shows some interesting and significant trends in Program operations.

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- The use of electronic benefit transfer technology continues to grow. This is good news given the statutory mandate that the use of this technology replace paper food stamps by October 2002.
- The number of authorized stores on the Program continues to decline. There does not seem to be any particular type of store that is most affected by the participation decline, but it is noteworthy

that supermarkets, the stores that redeem the most benefits, remained at a constant level. The proportion of benefits redeemed at supermarkets increased over the FY 1999.

- The number of investigations of stores is staying relatively constant. This indicates, in part, the Agency's continued commitment to rigorous enforcement of rules against the sale of ineligible items and especially against the trafficking of benefits.
- The amount of trafficking has decreased. A recent trafficking study indicates that stores trafficked about \$660 million per year for cash from the government in the 1996 – 1998 period, a 19 percent decline from the \$815 million trafficked in 1993.

The past year also saw great strides in efforts to better manage store activity. We kicked off a major effort to replace the computer system that we use to carry out many of our store activities. We began implementing a series of re-engineering efforts to work more efficiently and effectively and improve service to stores. These efforts are ongoing and future reports will show their results.

(Continued)



It must be noted that this report, while issued as the Benefit Redemption Division Annual Report, is actually reflective of the work carried out by a lot of people who are not in the Division. The strides made in implementing electronic benefit transfer technology would not be possible without much assistance from regional office, state agency, industry and retail partners. The work done authorizing stores and overseeing their operations is done by regional, contract and especially field office personnel. Hopefully readers will glean the enormous amount of good work that is done by people and that is hidden behind the statistics and other numbers reported here.



## Redemption Management Branch

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The Redemption Management Branch of the BRD is responsible for the overall management and operations of retailer and financial institution participation in the Food Stamp Program. Management responsibilities include the development of policy, legislation and regulations related to: retailer eligibility; authorization/application processing; eligible foods; financial management issues, such as claims and civil money penalties; program sanctions; and point of sale issues. In addition, retailer-related court suits, redemption system/financial institution policy, retailer program publications and Freedom of Information Act requests are handled in the Branch.



Operational responsibilities of the Branch include: management, development, and implementation of various automated systems related to retailer and redemption activities, such as the Store Tracking and Redemption System; retailer information sharing; development of program retailer forms; audit follow-up; development of retailer reauthorization procedures; Federal Reserve billing management and oversight; and, whistleblower complaint tracking. Policy and operational responsibilities also entail coordination and cooperation with many internal Agency and Departmental offices, as well as external contacts with other Departments, retailer trade associations and other industry groups.

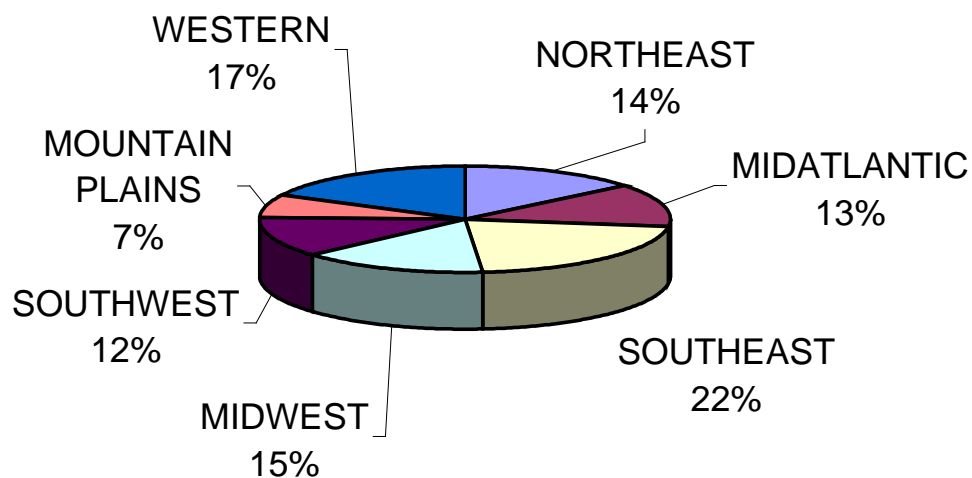


## Store Characteristics

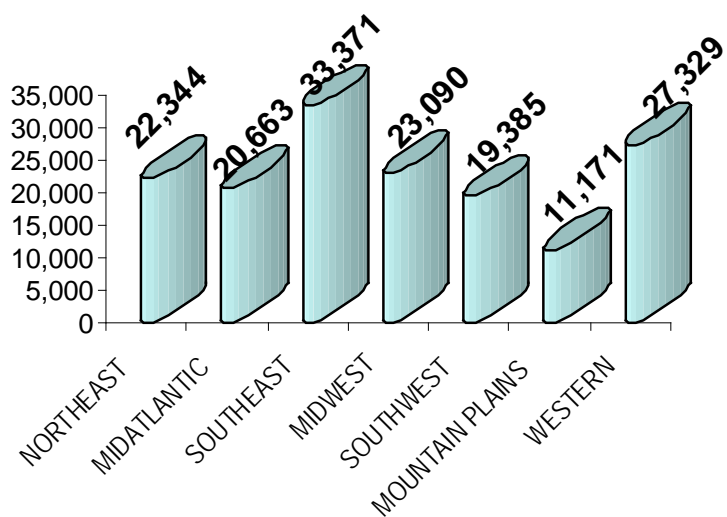
On September 30, 2000, there were **157,353** Firms authorized to accept Food Stamp Benefits.

Source: FSVF403I

### Percent of Authorized Firms by Region on 9/30/2000

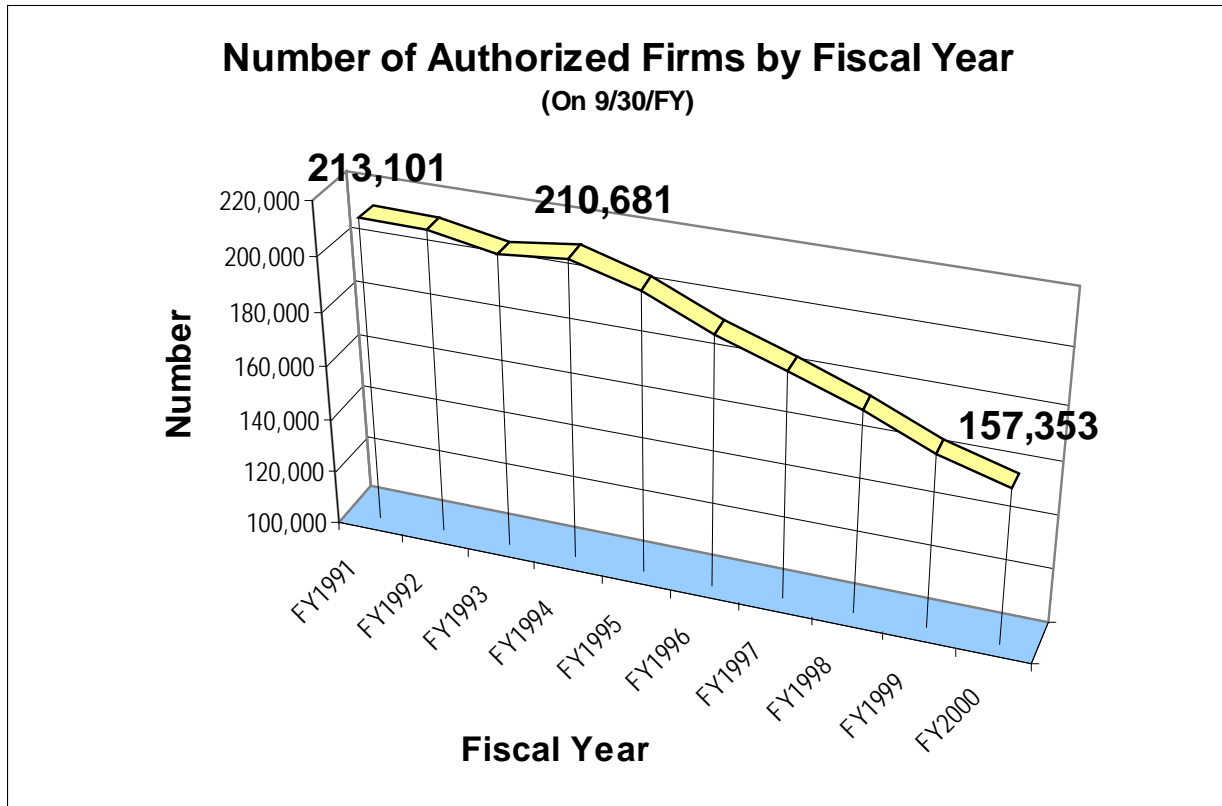


### Number of Authorized Firms on 9/30/2000





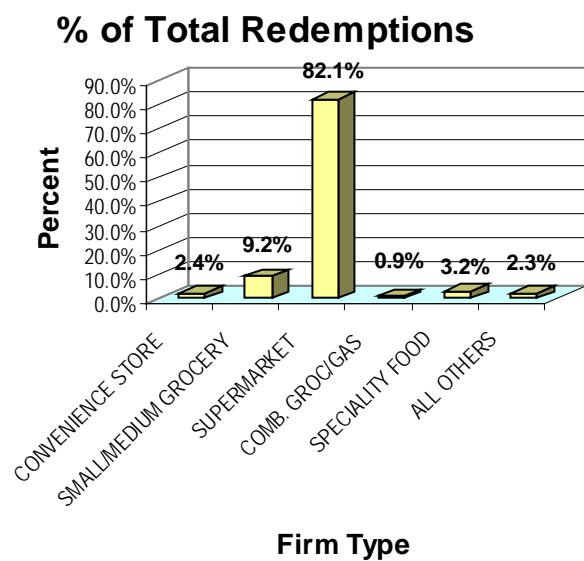
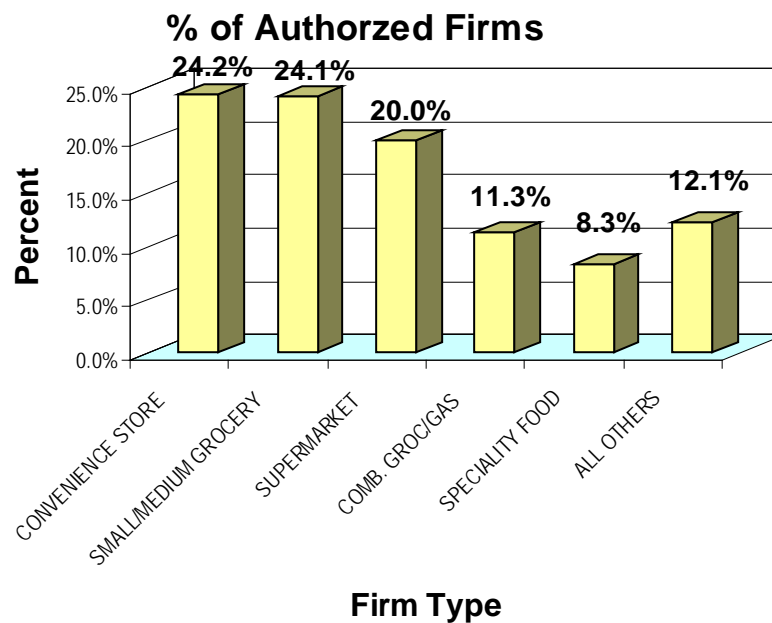
There has been a steady decline in the total number of Authorized Firms since FY1994.



## Store Characteristics

There are thirty two (32) Firm Types used for classifying Firms. However, over 87% of the authorized firms are classified in five (5) categories and over 97% of all Food Stamp Benefits are redeemed in the same five (5) Firm Types.

Source: FSYE402L for FY2000



## Store Characteristics

### Redemptions, Number and Percent for Fiscal Year 2000

STORE TYPE	REDEMPTION AMOUNT (\$)	PERCENT TOTAL	NO. OF FIRMS AUTHORIZED	PERCENT TOTAL
<b>CONVENIENCE STORE</b>	<b>\$343,450,459</b>	<b>2.36%</b>	<b>38,126</b>	<b>24.23%</b>
<b>SMALL/MEDIUM GROCERY</b>	<b>\$1,334,945,978</b>	<b>9.17%</b>	<b>37,884</b>	<b>24.08%</b>
<b>SUPERMARKET</b>	<b>\$11,950,822,392</b>	<b>82.12%</b>	<b>31,463</b>	<b>20.00%</b>
<b>COMB. GROC/GAS</b>	<b>\$129,213,733</b>	<b>0.89%</b>	<b>17,706</b>	<b>11.25%</b>
<b>SPECIALITY FOOD</b>	<b>\$465,424,595</b>	<b>3.20%</b>	<b>13,059</b>	<b>8.30%</b>
OTHER COMBINATION	\$102,394,160	0.70%	5,869	3.73%
COMB. GROC/MERCHANDISE	\$44,574,489	0.31%	2,090	1.33%
PRODUCE STAND	\$38,540,459	0.26%	2,656	1.69%
OTHER FIRM	\$36,640,986	0.25%	1,407	0.89%
OTHER ROUTE	\$30,954,587	0.21%	979	0.62%
MILITARY COMMISSARY	\$13,031,622	0.09%	214	0.14%
HEALTH/NATURAL FOOD	\$12,113,366	0.08%	1,187	0.75%
ALCOHOLIC TREATMENT	\$10,140,512	0.07%	419	0.27%
COMB. GROC/RESTAURANT	\$9,198,478	0.06%	658	0.42%
DRUG ADDICT TREATMENT	\$9,186,200	0.06%	252	0.16%
GRP. LIV. ARRANGEMENT	\$3,797,419	0.03%	257	0.16%
NON-PROFIT CO-OP	\$3,170,307	0.02%	289	0.18%
COMB. TREATMENT CENTER	\$2,959,683	0.02%	126	0.08%
FARMERS MARKETS	\$2,624,843	0.02%	253	0.16%
MILK ROUTE	\$2,181,783	0.01%	165	0.10%
WHOLESALE	\$1,811,174	0.01%	148	0.09%
PRODUCE ROUTE	\$1,656,655	0.01%	110	0.07%
NONPROFIT COMM. DIN.	\$1,384,486	0.01%	1,069	0.68%
HOMELESS MEAL PROVIDER	\$1,002,905	0.01%	121	0.08%
BREAD ROUTE	\$708,807	0.00%	45	0.03%
COMB. GROC/BAR	\$554,673	0.00%	71	0.05%
PVT. COMM. DIN. (REST.)	\$514,852	0.00%	85	0.05%
NONPROFIT MEAL DEL.	\$182,821	0.00%	616	0.39%
BATTERED WOMEN & CHILDREN	\$65,270	0.00%	19	0.01%
PRIVATE MEAL DEL.	\$12	0.00%	10	0.01%
<b>TOTAL</b>	<b>\$14,553,247,706</b>	<b>100.00%</b>	<b>157,353</b>	<b>100.00%</b>

Source: FSYE402L FY2000

## Store Characteristics

REGION	FIRM TYPES	AUTHORIZED RETAIL FOOD FIRMS
--------	------------	------------------------------------

### NORTHEAST

SUPERMARKET	3,242
SMALL/MEDIUM GROCERY	8,767
CONVENIENCE STORE	3,506
PRODUCE STAND	454
SPECIALITY FOOD	2,295
HEALTH/NATURAL FOOD	274
NON-PROFIT CO-OP	81
MILITARY COMMISSARY	13
OTHER FIRM	110
COMB. GROC/GAS	1,708
COMB. GROC/BAR	2
COMB. GROC/RESTAURANT	46
COMB. GROC/MERCHANDISE	240
OTHER COMBINATION	910
MILK ROUTE	26
BREAD ROUTE	6
PRODUCE ROUTE	5
OTHER ROUTE	83
FARMER MARKETS	42
Total	21,810

### MIDATLANTIC

SUPERMARKET	3,994
SMALL/MEDIUM GROCERY	5,745
CONVENIENCE STORE	4,630
PRODUCE STAND	361
SPECIALITY FOOD	1,648
HEALTH/NATURAL FOOD	154
NON-PROFIT CO-OP	31
MILITARY COMMISSARY	29
OTHER FIRM	97
COMB. GROC/GAS	2,160
COMB. GROC/BAR	29
COMB. GROC/RESTAURANT	169
COMB. GROC/MERCHANDISE	255
OTHER COMBINATION	784
MILK ROUTE	17
BREAD ROUTE	3
PRODUCE ROUTE	27
OTHER ROUTE	144
FARMER MARKETS	64
Total	20,341

Source: FSYE404L

## Store Characteristics

REGION	FIRM TYPES	AUTHORIZED RETAIL FOOD FIRMS
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### SOUTHEAST

SUPERMARKET	7,111
SMALL/MEDIUM GROCERY	5,387
CONVENIENCE STORE	8,562
PRODUCE STAND	667
SPECIALITY FOOD	2,476
HEALTH/NATURAL FOOD	163
NON-PROFIT CO-OP	34
MILITARY COMMISSARY	63
OTHER FIRM	178
COMB. GROC/GAS	6,019
COMB. GROC/BAR	6
COMB. GROC/RESTAURANT	157
COMB. GROC/MERCHANDISE	412
OTHER COMBINATION	1,302
MILK ROUTE	11
BREAD ROUTE	1
PRODUCE ROUTE	32
OTHER ROUTE	138
FARMER MARKETS	23
Total	32,742

### MIDWEST

SUPERMARKET	5,397
SMALL/MEDIUM GROCERY	5,242
CONVENIENCE STORE	4,669
PRODUCE STAND	330
SPECIALITY FOOD	1,802
HEALTH/NATURAL FOOD	146
NON-PROFIT CO-OP	60
MILITARY COMMISSARY	9
OTHER FIRM	192
COMB. GROC/GAS	3,109
COMB. GROC/BAR	6
COMB. GROC/RESTAURANT	64
COMB. GROC/MERCHANDISE	183
OTHER COMBINATION	1,059
MILK ROUTE	32
BREAD ROUTE	1
PRODUCE ROUTE	8
OTHER ROUTE	232
FARMER MARKETS	15
Total	22,556

Source: FSYE404L

## Store Characteristics

REGION	FIRM TYPES	AUTHORIZED RETAIL FOOD FIRMS
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### SOUTHWEST

SUPERMARKET	3,574
SMALL/MEDIUM GROCERY	3,830
CONVENIENCE STORE	7,318
PRODUCE STAND	178
SPECIALITY FOOD	1,656
HEALTH/NATURAL FOOD	43
NON-PROFIT CO-OP	7
MILITARY COMMISSARY	27
OTHER FIRM	67
COMB. GROC/GAS	1,426
COMB. GROC/BAR	4
COMB. GROC/RESTAURANT	77
COMB. GROC/MERCHANDISE	163
OTHER COMBINATION	662
MILK ROUTE	11
BREAD ROUTE	6
PRODUCE ROUTE	13
OTHER ROUTE	130
FARMER MARKETS	8
Total	19,200

### MOUNTAIN PLAINS

SUPERMARKET	2,715
SMALL/MEDIUM GROCERY	2,051
CONVENIENCE STORE	2,754
PRODUCE STAND	127
SPECIALITY FOOD	919
HEALTH/NATURAL FOOD	130
NON-PROFIT CO-OP	45
MILITARY COMMISSARY	17
OTHER FIRM	155
COMB. GROC/GAS	1,125
COMB. GROC/BAR	3
COMB. GROC/RESTAURANT	43
COMB. GROC/MERCHANDISE	168
OTHER COMBINATION	309
MILK ROUTE	34
BREAD ROUTE	3
PRODUCE ROUTE	4
OTHER ROUTE	139
FARMER MARKETS	17
Total	10,758

Source: FSYE404L

## Store Characteristics

REGION	FIRM TYPES	AUTHORIZED RETAIL FOOD FIRMS
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### WESTERN

SUPERMARKET	5,430
SMALL/MEDIUM GROCERY	6,862
CONVENIENCE STORE	6,687
PRODUCE STAND	539
SPECIALITY FOOD	2,263
HEALTH/NATURAL FOOD	277
NON-PROFIT CO-OP	31
MILITARY COMMISSARY	56
OTHER FIRM	608
COMB. GROC/GAS	2,159
COMB. GROC/BAR	21
COMB. GROC/RESTAURANT	102
COMB. GROC/MERCHANDISE	669
OTHER COMBINATION	843
MILK ROUTE	34
BREAD ROUTE	25
PRODUCE ROUTE	21
OTHER ROUTE	113
FARMER MARKETS	84
Total	26,824

Source: FSYE404L



## Redemption Bands for Firm Types

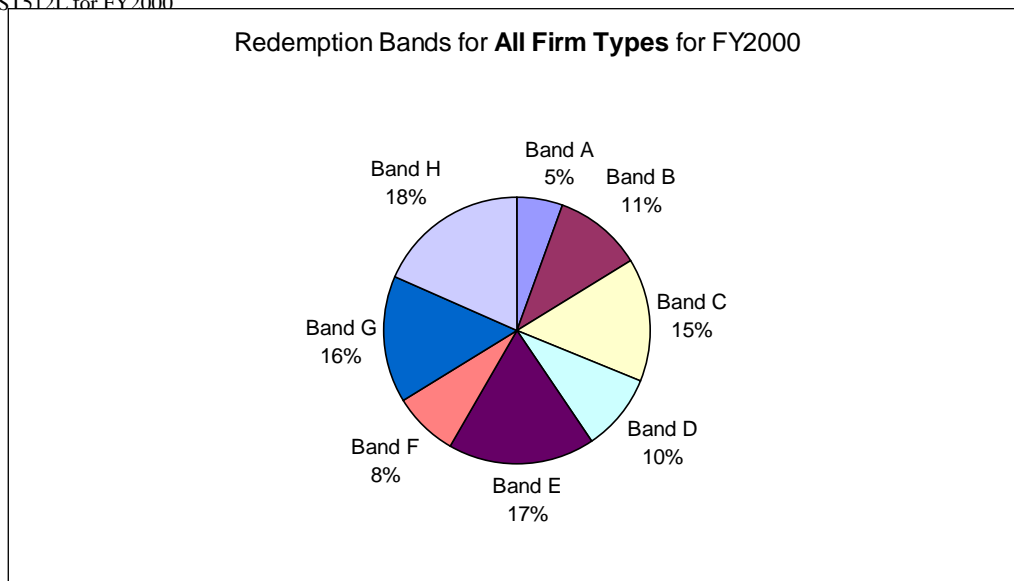
A revision to the *Store Category – Average Monthly Redemption Ranges* report drawn from STARS has resulted in the eight Redemption Bands shown below.

<u>Redemption Bands</u>	<u>Average Monthly Redemption Range</u>
Band A	\$0
Band B	\$1.00 to \$99.99
Band C	\$100.00 to \$299.99
Band D	\$300.00 to \$499.99
Band E	\$500.00 to \$1,249.99
Band F	\$1,250 to \$1,999.99
Band G	\$2,000.00 to \$7,499.99
Band H	\$7,500 and more.

Source: FSST512L for FY2000

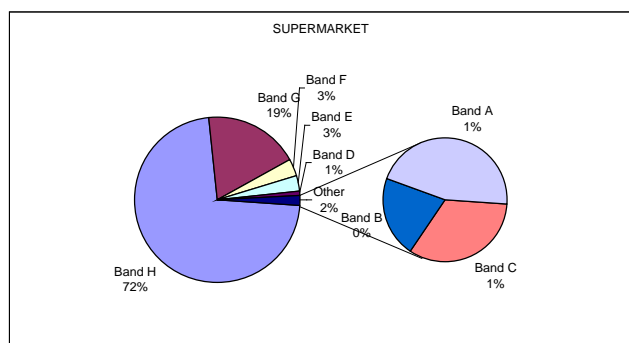
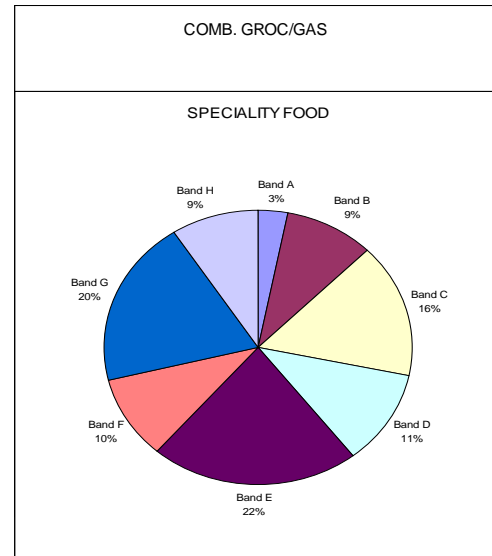
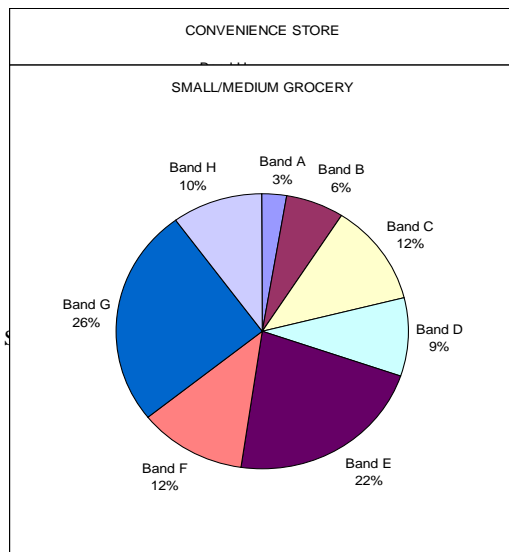
The aggregate % in each band for all firm types for FY2000 is depicted below. For example **5%** of all firms have **\$0** (Band A) as their Average Monthly Redemptions for FY2000.

Source: FSST512L for FY2000



## Store Characteristics

Redemption Bands for the five (5) Firm Types with over 97% of FSP Redemptions are shown below.



## Store Characteristics

### Number of Firms and Redemptions by State

REGION	STATE	NUMBER OF TOTAL REDEMPTION AUTHORIZED FIRMS	AMOUNT (\$)
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#### NORTHEAST

	CONNECTICUT	1,331	\$134,586,483
	MASSACHUSETTS	2,821	\$180,019,810
	MAINE	1,661	\$76,878,392
	NEW HAMPSHIRE	639	\$33,577,881
	NEW YORK	14,663	\$1,328,744,561
	RHODE ISLAND	702	\$55,923,380
	VERMONT	527	\$24,487,385
REGION TOTAL		22,344	\$1,834,217,892

#### MIDATLANTIC

	WASHINGTON DC	378	\$48,640,465
	DELAWARE	407	\$30,079,930
	MARYLAND	2,364	\$225,541,483
	NEW JERSEY	3,822	\$296,293,840
	PENNSYLVANIA	6,985	\$637,873,453
	VIRGINIA	4,267	\$258,775,295
	VIRGIN ISLANDS	214	\$20,869,206
	WEST VIRGINIA	2,226	\$168,290,360
REGION TOTAL		20,663	\$1,686,364,032

#### SOUTHEAST

	ALABAMA	2,800	\$338,311,763
	FLORIDA	9,160	\$761,066,057
	GEORGIA	4,308	\$484,878,398
	KENTUCKY	3,666	\$335,875,808
	MISSISSIPPI	2,901	\$224,545,937
	NORTH CAROLINA	4,051	\$423,196,979
	SOUTH CAROLINA	2,529	\$246,360,827
	TENNESSEE	3,956	\$399,760,658
REGION TOTAL		33,371	\$3,213,996,427

## Store Characteristics

REGION	STATE	NUMBER OF TOTAL REDEMPTION AUTHORIZED FIRMS	AMOUNT (\$)
<b>MIDWEST</b>			
	ILLINOIS	5,481	\$755,540,152
	INDIANA	2,590	\$257,160,431
	MICHIGAN	5,404	\$320,299,590
	MINNESOTA	2,146	\$157,382,411
	OHIO	5,268	\$505,936,694
	WISCONSIN	2,201	\$126,990,112
REGION TOTAL		23,090	\$2,123,309,390
<b>SOUTHWEST</b>			
	ARKANSAS	1,606	\$199,344,323
	LOUISIANA	3,517	\$441,157,050
	NEW MEXICO	1,043	\$139,083,468
	OKLAHOMA	2,307	\$201,088,023
	TEXAS	10,912	\$1,207,335,100
REGION TOTAL		19,385	\$2,188,007,964
<b>MOUNTAIN PLAINS</b>			
	COLORADO	1,429	\$127,613,572
	IOWA	1,874	\$99,675,432
	KANSAS	1,136	\$82,522,608
	MISSOURI	2,992	\$351,311,477
	MONTANA	785	\$49,096,782
	NORTH DAKOTA	508	\$25,773,727
	NEBRASKA	857	\$61,594,225
	SOUTH DAKOTA	572	\$33,710,491
	UTAN	734	\$46,579,909
	WYOMING	284	\$18,601,663
REGION TOTAL		11,171	\$896,479,886

## Store Characteristics

REGION	STATE	NUMBER OF TOTAL REDEMPTION AUTHORIZED FIRMS	AMOUNT (\$)
<b>WESTERN</b>			
	ALASKA	473	\$44,563,867
	ARIZONA	2,086	\$232,435,614
	CALIFORNIA	17,238	\$1,602,209,288
	GUAM	244	\$35,555,327
	HAWAII	917	\$165,757,685
	IDAHO	577	\$45,905,779
	NEVADA	750	\$56,313,872
	OREGON	2,051	\$190,182,300
	WASHINGTON	2,993	\$237,948,383
REGION TOTAL		27,329	\$2,610,872,115
<b>NATIONAL TOTAL</b>		157,353	\$14,553,247,706

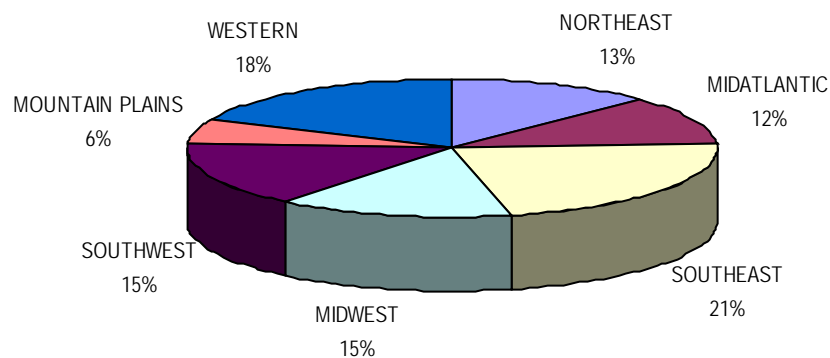


## Store Characteristics

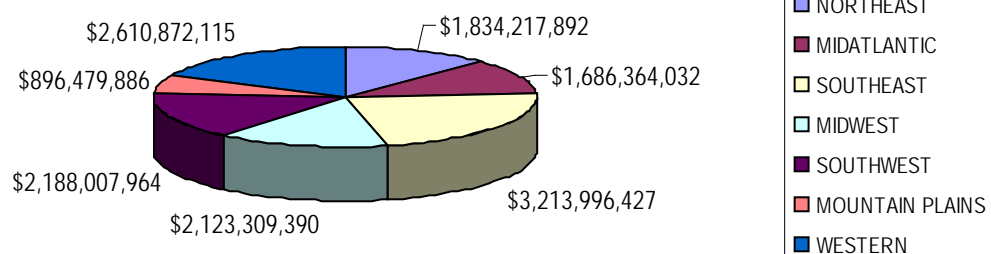
In FY2000, Authorized Firms Redeemed **\$14,553,247,706** in Food Stamp Benefits.

Source: FSYE403L

**Percentage of Food Stamp Benefits Redeemed by Region**



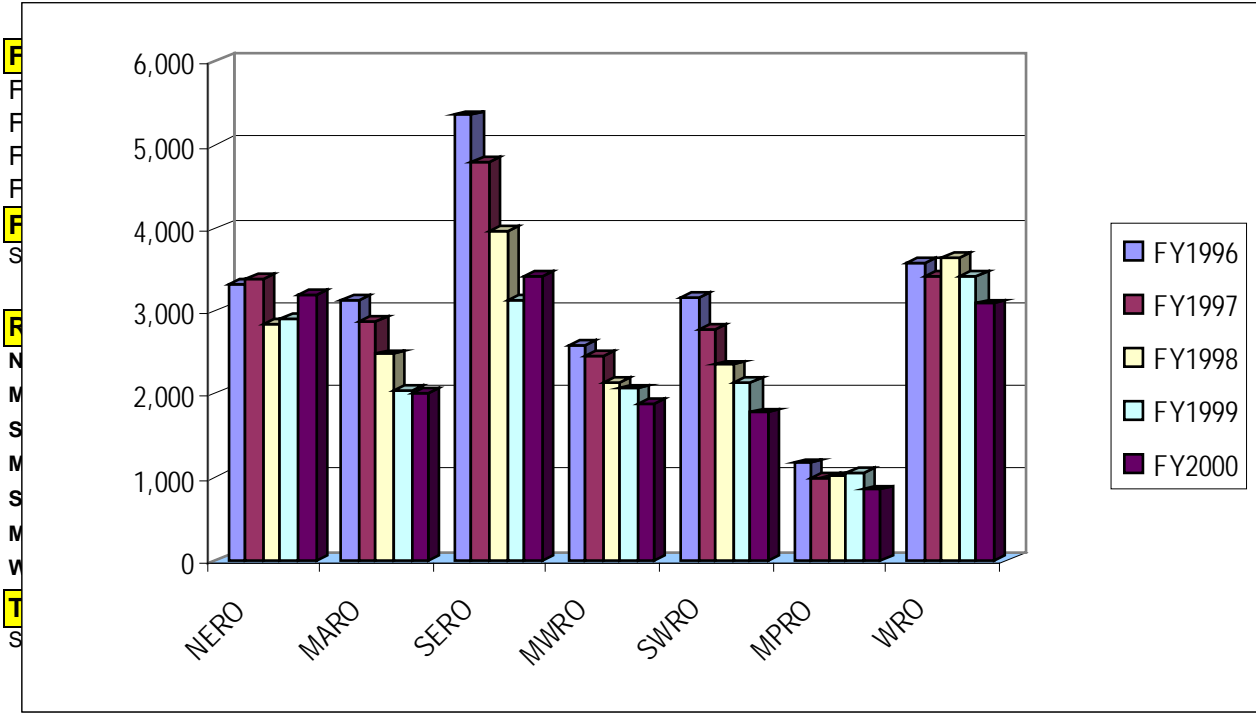
**Value of Food Stamp Benefits Redeemed by Region**



Authorization Activity

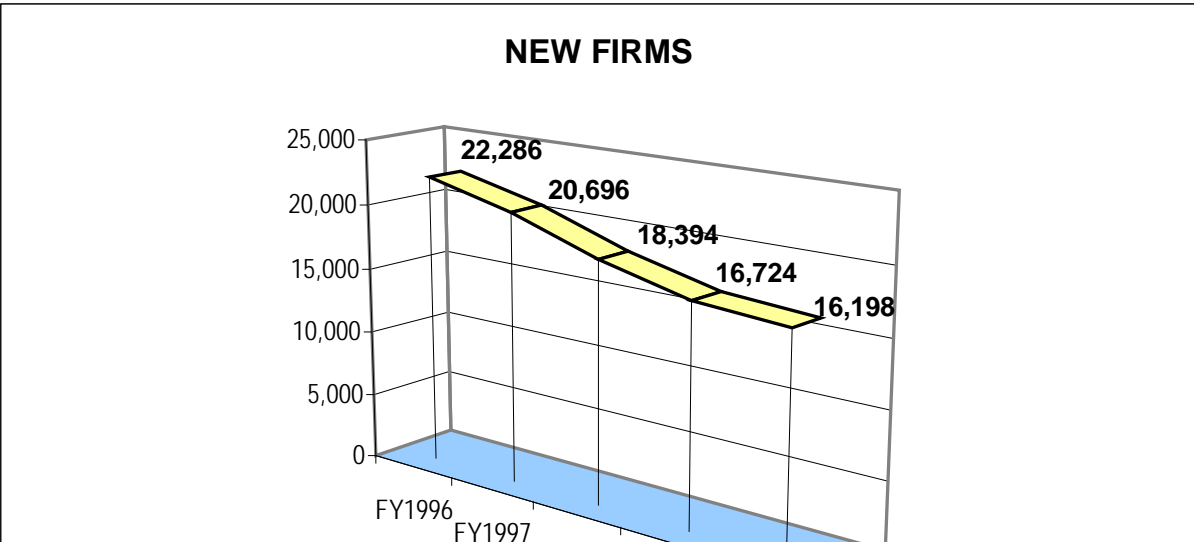
New Authorizations

In FY2000, 16,198 New Firms were Authorized.



Authorization Activity

There has been a steady decline in the New Firms Authorized since FY1996.





## Monitoring Activity

### STARS Compliance Activity Tracking Actions

During FY2000, **2,960** Pre-Case entries in STARS were made to initiate review of firms in the Food Stamp Program. Entries were made based on administrative reasons (EBT Analysis or High Redeemer Analysis) or based on Requests for Investigation (RFI) sent to the Compliance Branch, the Office of the Inspector General, USDA (RFI-OI) and to other investigative agencies (RFI-OTH), such as the Secret Service, FBI, or State Law Enforcement Bureau.

Pre-Case: Referral or Origination						
Region	RFI EBT Analysis	High Redeemer Analysis	RFI - OI	RFI - OTH	TOTALS	
Northeast	140	231	7	0	0	378
Mid-Atlantic	394	151	41	0	0	586
Southeast	438	760	54	4	48	1,304
Midwest	237	60	71	0	0	368
Southwest	101	64	5	0	0	170
Mountain Plains	17	15	1	0	0	33
Western	79	7	35	0	0	121
<b>TOTALS</b>	<b>1,406</b>	<b>1,288</b>	<b>214</b>	<b>4</b>	<b>48</b>	<b>2,960</b>

CATS Event Code = 01 and Action Code = 01 through 05

## Monitoring Activity

### Firms Removed from the FSP

**24,277** firms were removed from the Food Stamp Program in FY2000.

Reason for Removal from FSP						
Region	WITHDRAWAL				DISQUALIFIED (P or T)	TOTAL REMOVED
	VOLUNTARY	INVOLUNTARY	WIC	NOT A OR B		
Northeast	2,909	40	7	7	154	3,117
Mid-Atlantic	3,786	38	0	29	206	4,059
Southeast	4,822	369	3	7	419	5,620
Midwest	2,513	605	3	43	158	3,322
Southwest	3,082	134	1	30	173	3,420
Mountain Plains	985	48	0	22	50	1,105
Western	2,988	521	0	28	97	3,634
<b>Totals</b>	<b>21,085</b>	<b>1,755</b>	<b>14</b>	<b>166</b>	<b>1,257</b>	<b>24,277</b>

Source: FSSP401L FY2000 and FSST514L

**Voluntary Withdrawal:** Usually occurs due to changes in ownership of the store. Others withdraw because they would not meet the eligibility standards or because they had little or no redemption activity.

**Involuntary Withdrawal:** The nature of the firm's business changes, firm provides false or inaccurate information, or for other reasons.

**Not A or B:** Specifically did not meet the authorization criteria.

**WIC Withdrawal:** Noncompliance with the requirements of other State or Federal programs.

**Disqualified (P or T):** Disqualified permanently (P) or Temporarily (T) for noncompliance with the Food Stamp Act and the Food Stamp Program Regulations.

## Monitoring Activity

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### Disqualifications

Penalty Breakdown by Fiscal Year			
Fiscal Year	Permanent Disqualification	Other **	Total Firms Disqualified
1983	0	1,283	1,283
1984	31	1,129	1,160
1985	195	1,193	1,388
1986	212	1,151	1,363
1987	174	1,237	1,411
1988	160	1,837	1,997
1989	189	2,045	2,243
1990	330	971	1,301
1991	332	745	1,077
1992	342	524	866
1993	448	394	842
1994	654	499	1,153
1995	699	410	1,109
1996	765	536	1,301
1997	933	628	1,561
1998	661	762	1,423
1999	284	976	1,260
2000	561	696	1,257

\*\* Includes all other periods of disqualification, such as 60 or 90 days, 6 months, and 1 through 10 years. Also, retailers that received a period of disqualification in addition to a CMP are reflected in this category.

Source: 2000 FSST 514L Report, CATS (Compliance Activity Tracking System) Reports and previous BRD Annual Reports

## Action Taken Against Firms

### Civil Money Penalty

A Civil Money Penalty (CMP) is imposed against an authorized firm in lieu of disqualification or against a disqualified owner who sells his/her store before the expiration of the disqualification period. There are three different types of CMPs:

#### A. Hardship

Used in place of disqualification in those situations in which the disqualification would cause a hardship, not just an inconvenience, to recipients.

#### B. Trafficking

A CMP in lieu of permanent disqualification may be imposed on firms for trafficking in the FSP.

#### C. Transfer of Ownership

A transfer of ownership CMP is imposed against an owner who sells his/her store prior to completion of a disqualification period or payment in full of a hardship or trafficking CMP.

### CMPs Established during FY 2000

TYPE	\$ AMOUNT OF CMP ASSESED FY2000	NUMBER OF CMP's ESTABLISHED FY2000
<b>Hardship CMP</b>		
Northeast	\$166,424	22
Mid-Atlantic	\$54,132	12
Southeast	\$114,715	24
Midwest	\$13,142	9
Southwest	\$22,132	8
Mountain Plains	\$15,614	7
Western	\$18,414	10
National Total	\$404,574	92
<b>Trafficking CMP</b>		
Northeast	\$43,676	4
Mid-Atlantic	\$23,230	1
Southeast	\$57,958	3
Midwest	\$18,900	1
Southwest	\$0	0
Mountain Plains	\$40,000	1
Western	\$6,384	1
National Total	\$190,148	11
<b>Transfer of Ownership CMP</b>		
Northeast	\$10,000	1
Mid-Atlantic	\$24,494	2
Southeast	\$58,336	2
Midwest	\$95,833	5
Southwest	\$72,024	3
Mountain Plains	\$0	0
Western	\$898,202	7
National Total	\$1,158,889	20
<b>Totals</b>	<b>\$1,753,611</b>	<b>123</b>

BRD STARS and MARS Reports

## Actions Taken Against Firms

### Fiscal Claims

#### Food and Nutrition Service Food Stamp Program Fiscal Claims FY2000

Region	Open Accounts on 9/30/1999		Established	Collected	Fiscal Claim Writeoffs		Open Accounts on 9/30/2000	
	Number	\$Amount	\$Amount	\$Amount	Number	\$ Amount	Number	\$Amount
Northeast	75	\$120,863	\$28,609	\$21,751	21	\$15,636	65	\$112,984
Mid-Atlantic	106	\$692,076	\$31,073	\$12,295	38	\$230,490	61	\$223,409
Southeast	43	\$233,363	\$61,157	\$8,435	3	\$126	39	\$293,153
Midwest	2	\$171	\$17,848	\$7,081	11	\$120	5	\$11,010
Southwest	112	\$90,377	\$21,908	\$17,139	7	\$4,474	109	\$81,372
Mountain Plains	36	\$114,053	\$11,135	\$2,235	20	\$31,402	18	\$86,735
Western	137	\$942,474	\$87,309	\$19,055	1	\$1	130	\$938,741
<b>Total</b>	<b>511</b>	<b>\$2,193,377</b>	<b>\$259,039</b>	<b>\$87,991</b>	<b>101</b>	<b>\$282,249</b>	<b>427</b>	<b>\$1,747,404</b>

Source: Accounting Division (Headquarters) and Agency Financial Management System (AFMS)

## Compliance Branch

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The Office of the Inspector General (OIG) has responsibility for all investigative activity in the U.S. Department of Agriculture (USDA). However, authority to conduct both misdemeanor and felony level retailer food stamp investigations was delegated to the Food and Nutrition Service (FNS). In January 1977, the Compliance Branch was formed to carry out the investigative function within FNS.

Organizationally, the Compliance Branch is part of the Food Stamp Program headquarters office. The Branch has four out-stationed Area Offices (located in Chicago, Dallas, Memphis and Trenton), each managed by a Compliance Officer-in-Charge.

Investigations are conducted by a nationwide staff of investigators who are classified in the GS-1810 General Investigator series. All Compliance Branch investigators receive professional training at the Federal Law Enforcement Training Center at Glynco, Georgia.

The Compliance Branch has concentrated on investigations of stores with larger amounts of food stamp redemptions, and its priority has been to conduct investigations which disclose trafficking (the exchange of food stamp benefits for cash, generally at a discount rate of about 50 cents on the dollar or illegal goods).

During Fiscal Year 2000, the Compliance Branch conducted investigations of 4,592 firms nationwide. Over forty-one percent (1,894) of these investigations documented evidence of Food Stamp Program violations. Yearly food stamp redemptions for these 1,894 firms totaled \$197 million. Further during Fiscal Year 2000, of the 1,894 positive investigations, Compliance Branch investigators uncovered trafficking in 493 firms with annual redemptions of \$131 million.

In Fiscal Year 2000, the Compliance Branch, in addition to ongoing investigative activity, conducted nine (9) mini-task force investigative operations in: New York City, NY; Milwaukee, WI; Houston, TX; Miami, FL; Guam, United States Territories; Northern Kentucky; Western Kentucky; Baltimore, MD; and Middle North Carolina.



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## Compliance Branch Historical Statistics

### Investigations

FISCAL YEAR	TOTAL # OF STORES INVESTIGATED	TOTAL # OF POSITIVE INVESTIGATIONS	% OF TOTAL
1995	5,229	2,259	43.20%
1996	4,635	2,155	46.49%
1997	4,627	2,084	45.04%
1998	5,178	2,300	44.42%
1999	4,622	2,005	43.38%
<b>2000</b>	<b>4,592</b>	<b>1,894</b>	<b>41.25%</b>

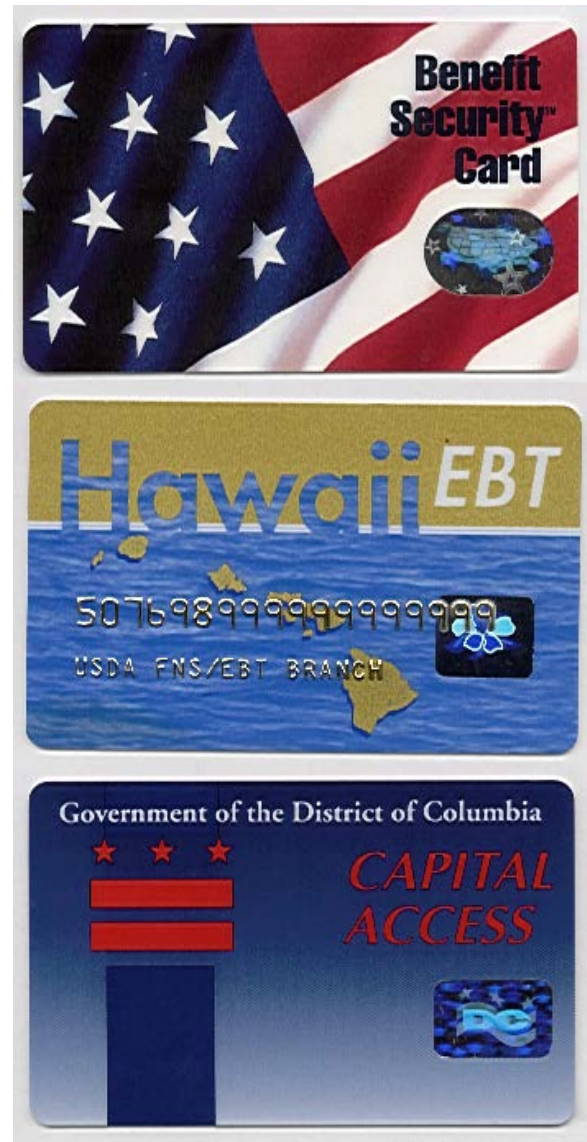
FISCAL YEAR	TOTAL # OF NON-TRAFFICKING	TOTAL # OF TRAFFICKING CASES	% OF POSITIVE
1995	1,382	877	38.8%
1996	1,412	743	34.5%
1997	1,372	712	34.2%
1998	1,581	719	31.3%
1999	1,521	484	24.1%
<b>2000</b>	<b>1,401</b>	<b>493</b>	<b>35.19%</b>

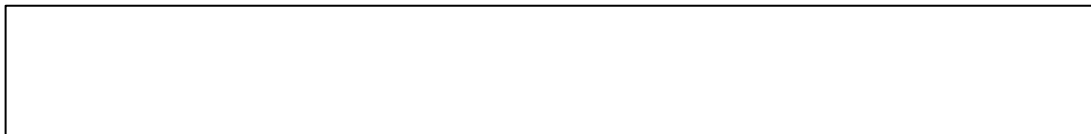
Source: CB Area Offices – 01/2000

## Electronic Benefit Transfer (EBT) Branch

In July 1993, the Secretary announced the policy that all States must initiate planning activities for food stamps EBT by the end of 1996 because it would save distribution and redemption costs and offer new ways to deter and detect some retailer and recipient abuses. In addition, EBT has been shown through FNS evaluations to be a better system for recipients, retailers, banks and government administrators. Furthermore, Welfare Reform legislation mandates EBT for all States by October 2002.

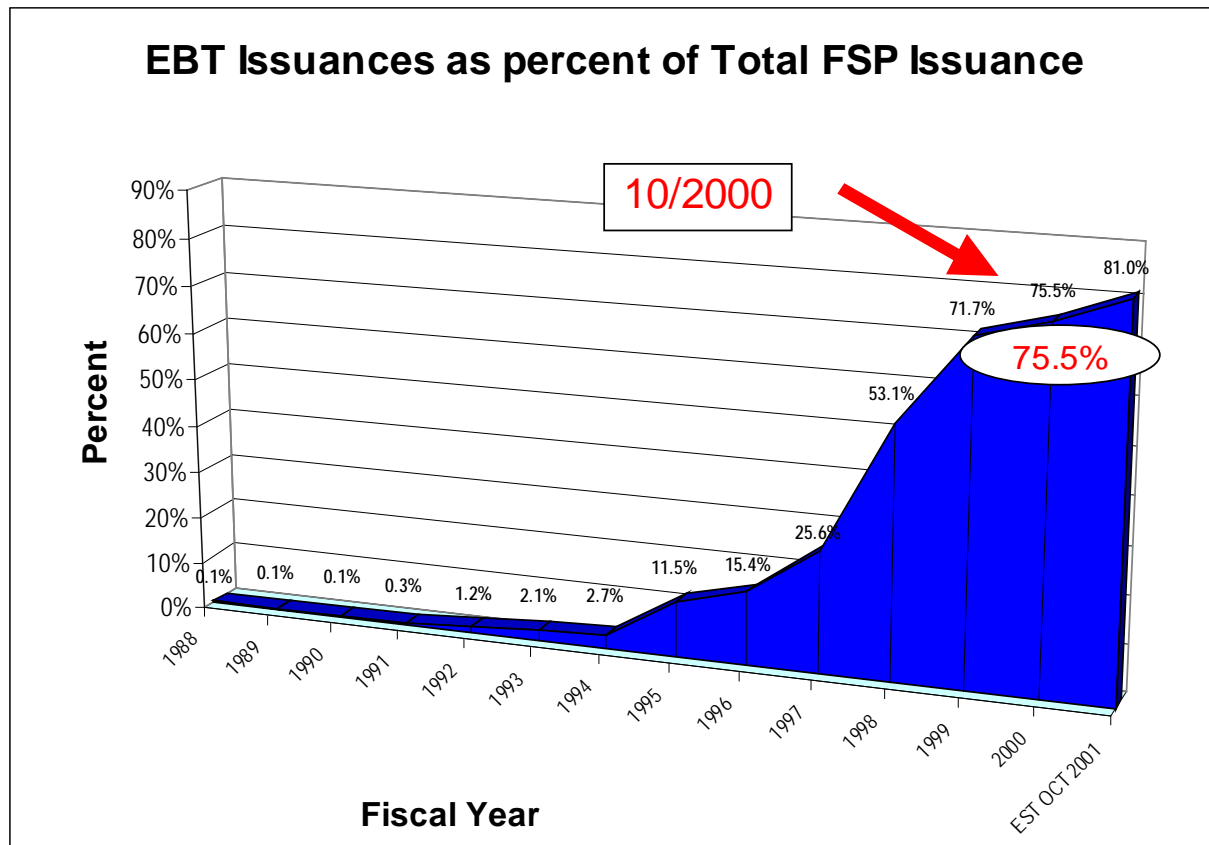
The EBT Branch is tasked with making nationwide EBT a reality. The Branch resolves policy issues related to the implementation of EBT systems and disseminates the policy through rulemaking and other means. The staff reviews for approval the States' Advanced Planning Documents and Requests for Proposals for EBT contract procurement. The staff also reviews EBT system designs and attends acceptance testing to be sure the systems are ready before they are put into production.

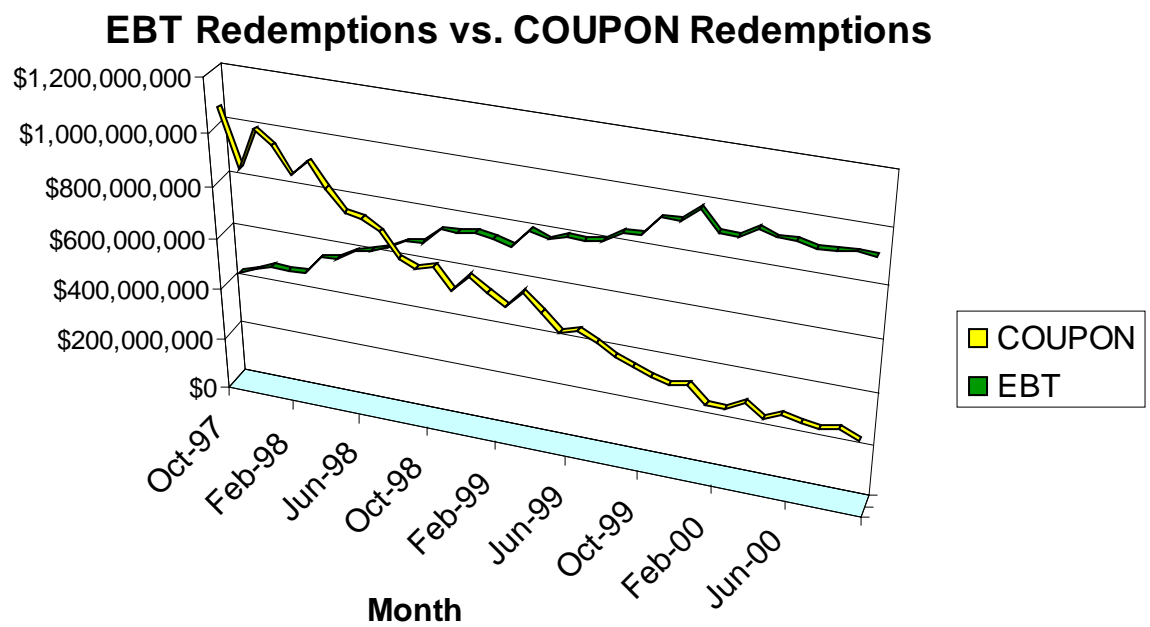




At the end of FY 2000, forty-one States and the District of Columbia have operating EBT systems. They are: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Washington, Wisconsin and Wyoming. Thirty-eight of these State systems (those underlined) are Statewide. Two of the States, Ohio and Wyoming, use off-line smartcard technology. All other States are in some stage of planning or implementing their EBT systems.

Most of the EBT systems deliver both food stamps and cash assistance programs. More than **75 percent** of food stamp benefits are being delivered by the EBT systems.





# Administrative Review Process

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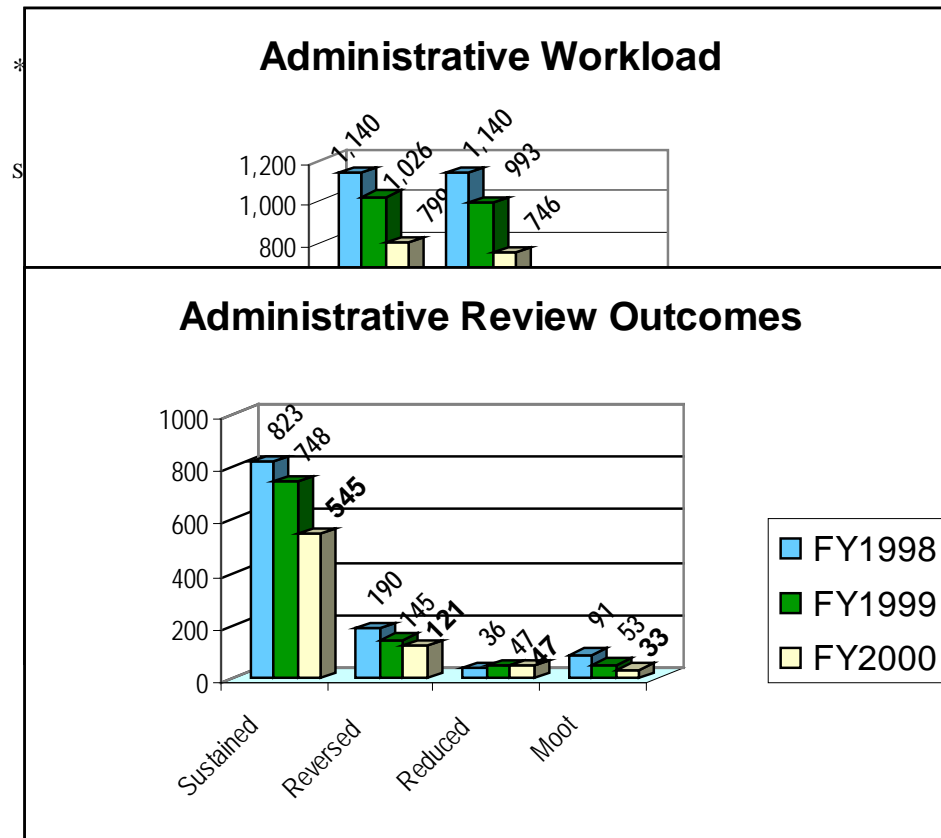
## Administrative Review Process

An authorized retailer aggrieved by any adverse action taken by the Food and Nutrition Service (FNS) may request an administrative review. The function of the Administrative Review Branch is to ensure that the agency follows the provisions of the Food Stamp Act, Food Stamp Program regulations, and agency retailer policy.

Administrative reviews are conducted by persons designated as Administrative Review Officers (AROs) by the FNS Administrator. ARO rulings are not subject to amendment or reversal except through judicial review proceedings. Requests for review may be filed by firms aggrieved by any of the following actions:

- (1) Denial of application or withdrawal of authorization to participate in the Program;
- (2) Disqualification from participation in the program or imposition of a civil money penalty;
- (3) Denial of all or part of any claim asserted by a firm against FNS;
- (4) Assertion of a claim established by FNS, or;
- (5) Forfeiture of part or all of a collateral bond.

## Administrative Workload and Outcomes





## Special Projects Highlights

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### *Introduction*

Each year the Benefit Redemption Division selects several priority projects that focus on improving retailer operations. The **Special Project Highlights** Section of this report provides information on selections for FY2000. In many cases the projects involve significant input from our partners.

One topic in this section describes a study addressing the extent of trafficking in the Food Stamp Program. This study was conducted outside of BRD by the FNS Office of Analysis, Nutrition, and Evaluation. The results are quite interesting.

### ***Retailer Operations – Activity Tracking***

#### **STARS II**

The Store Tracking and Redemption Subsystem (STARS) application that provides automated support for the retailer management process in the Food Stamp Program is approaching the end of its system life and BRD has identified a need for a new STARS II system. During FY 2000, work began on STARS II and STARS users and other FNS FSP stakeholders completed Phase I, the Business and Analysis Design. The group identified processes that are no longer necessary and those that could be improved through the application of a system that facilitates the efficient sharing of data between various FNS groups in one technically modern and consolidated system. Phase II, Development and Testing, is scheduled to begin in FY 2001. Phase III is the Pilot and Implementation, and will begin upon successful completion of Phase II. The estimated timeframe is January 2002 - September 2002.

#### **Store Visit Contract**

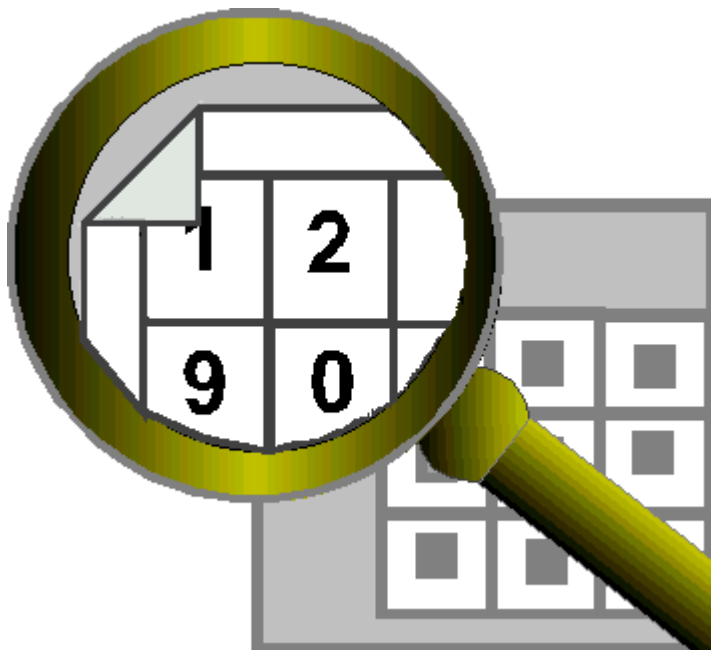
FNS has awarded contracts to five private vendors to make on-site visits to stores authorized or applying for authorization to participate in the Food Stamp Program. The visits are used to confirm that stores are eligible to be authorized according to the law and regulations of the FSP, as well as to reduce program vulnerability to fraud and abuse. The contracts enable FNS field offices to purchase store visits that include on-site survey and photographic documentation. Field office staff determine if stores are eligible to participate in the FSP based largely on an evaluation of that information. These documented observations enhance FNS' overall ability to monitor store participation and reduce the risk of program violations.

## ALERT

The Anti-Fraud Locator Using EBT Retailer Transactions (ALERT) system, assesses and analyzes over 38 million, individual EBT transactions per month to identify retail firms with suspicious patterns of food stamp benefit redemptions.

ALERT makes available, on line, a series of reports and queries, as well as the actual transaction data, to assigned Departmental and Agency staff with retailer and compliance monitoring responsibilities. This data triggers further analysis and investigations which may result in on site reviews, investigations, prosecutions and administrative sanctions .

A major improvement to the system in the past year has been to add to the data base EBT transactions from all major supermarkets. As needed, supermarket data can be analyzed and all recipient transactions tracked regardless of where they are redeemed. This change has more than doubled the volume of transactions that can be analyzed and further extends the Agency's ability to manage the Food Stamp Program.



### SEAR

The Store Eligibility Accuracy Rate (SEAR) is a measure of how well FNS is doing in ensuring that only stores that meet the Food Stamp Program's eligibility criteria accept food stamps. To date there have been two SEAR measurements, Fiscal Years 1999 and 2000. We expect to continue this type of measurement in the future.

SEAR takes place during a two month period each year. The SEAR database is derived from data that is collected on a nationwide randomly selected, statistically valid, sample of stores. When a store is selected for review in SEAR, a determination is made as to whether it meets one of the two eligibility criteria, A or B, for participation in the Program. Criterion A represents stores that carry a variety of foods in each of the 4 food groups and Criterion B represents stores that carry only specialty foods.

In FY 2000, there were 1,992 stores selected for the SEAR project. Stores were reviewed during the months of May and June. Visits to stores, which is a SEAR requirement, provide a significant amount of store information that we can use as tools to evaluate the effectiveness of policies and procedures in particular program areas. Store data will also assist us in detecting and tracking potential program integrity problems.

Results of SEAR 2000 show that **98.5%** of the stores reviewed were found eligible to participate in the program.

## ***Retailer Operations – Authorization***

### **Application Kits**

#### **Retailer Application Kit Toll Free Number**

The process of supplying application kits to retailers has been primarily handled by clerical staff in various field offices. The new process centralizes this task at a national location. Retailers interested in participating in the Program call a toll free number and request an application kit. Retailers still have the option of picking up an application at the local field office. Chain supermarkets and non-retail firms such as meal services are not part of this effort.

### **Application Form**

#### **Redesign of the FSP Retailer Application Form**

BRD's Redemption Management Branch provided policy and procedural support to a re-engineering of the FSP application form for retailers. This form has historically been the major data collection instrument for retailer identification, and for additional information for compliance monitoring and program analysis and evaluation. The premise of the redesign has been to exclude all data collection from the form that is either not relevant to a determination of a store's eligibility for authorization, is being collected as part of the Store Visit Contract, or can be obtained from another source. The form has gone through development and initial testing and policy review, and circulated for comment to all the Regions. The final draft will shortly go to Management for internal agency endorsement, and then will come to RMB to be shepherded through the full Federal forms clearance process while beginning coordination to automate the form.

## ***Issuance Activity***

### **Disaster Plan Guidance**

During FY 2000, FNS developed guidelines for responding to disasters in consultation with State agency staff who have implemented disaster programs. The guidelines will help EBT States better prepare a disaster response system now that 75 percent of food stamp benefits are issued electronically. EBT systems present a different sort of challenge for States attempting to implement disaster relief food stamp programs to ensure prompt benefit access under a wide variety of circumstances.

### **Farmer's Markets**

EBT pilots in farmer's markets took place in Florida, Hawaii, New York, New Mexico, Washington and the District of Columbia. These various pilots are aimed at bringing EBT system operations in line with farmers' market operations. So far we have seen success with the scrip system approaches and are anxious to learn more about the cost and effectiveness of wireless point of sale (POS) equipment technology being tested in Florida and New York.

### **Alternatives Analysis**

In September 2000, the *Electronic Benefits Transfer (EBT) Alternatives Analysis* commissioned by FNS was posted onto the FNS website for public view. This report analyzes possible changes FNS and States could make to existing EBT implementation and system models to increase competition among EBT vendors, facilitate system implementation nationwide, and lower the cost of EBT in general. BRD is carefully weighing the alternatives presented in the report to determine which of them are feasible at this time.

### ***The Extent of Trafficking in the Food Stamp Program***

Food stamps are intended for food. When individuals sell their benefits for cash it violates the spirit and intent of the Food Stamp Program as well as the law. This practice, known as trafficking, diverts food stamps away from their purpose. Trafficking reduces intended nutritional benefits and undermines public perceptions of the integrity and utility of the program.

Studies addressing the extent of trafficking in the Food Stamp Program were published in both 1995 and 2000. The comparison of these two studies results indicates the following:

- The amount of trafficking has decreased. Stores trafficked about \$660 million per year for cash from the government in the 1996-1998 period, a 19 percent decline from the \$815 million trafficked in 1993.

- The rate of trafficking has also decreased. The trafficking *rate* - which compares dollars trafficked to benefits issued - declined 8 percent: from almost four cents of every dollar of food stamp benefits issued to three-and-one-half cents of every dollar issued.

- The analysis of where store violations occur indicates that the overall pattern remains unchanged:

Dramatic differences exist among store types: the percent of redemptions that are trafficked ranged from nearly zero to over fifteen percent across store categories.

The stores which redeem the overwhelming majority of food stamp benefits continue to have very low trafficking rates.